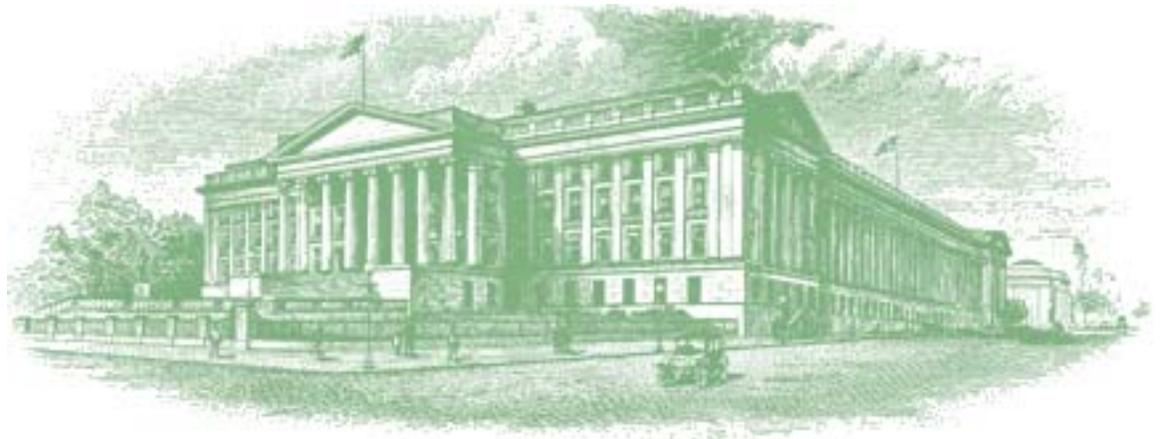




# Audit Report



OIG-09-050

Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's Federal Investments Branch for the Period August 1, 2008 to July 31, 2009

September 23, 2009

## Office of Inspector General

DEPARTMENT OF THE TREASURY

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. Section 552.

Information within Sections III and IV has been **REDACTED**  
under **FOIA Exemption 2, 5 U.S.C. §552(b)(2)**:

Section III:

**Control Objective 1 – System Software**

**Control Objective 3 – Program Change Control**

**Control Objective 4 – Physical Access**

**Control Objective 5 – Logical Access**

**Control Objective 7 – Network Performance Monitoring**

Section IV:

**CONTINGENCY PLANNING**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

September 23, 2009

**MEMORANDUM FOR VAN ZECK, COMMISSIONER  
BUREAU OF THE PUBLIC DEBT**

**FROM:** Michael Fitzgerald  
Director, Financial Audits

**SUBJECT:** Report on Controls Placed in Operation and Tests  
of Operating Effectiveness for the Bureau of the  
Public Debt's Federal Investments Branch for the  
Period August 1, 2008 to July 31, 2009

I am pleased to transmit the attached Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Bureau of the Public Debt's (BPD) Federal Investments Branch for the period August 1, 2008 to July 31, 2009. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed the examination of the general computer and investment/redemption processing controls related to BPD's transactions processing of investment accounts for various Federal Government agencies (Fund Agencies) for the period August 1, 2008 to July 31, 2009. The contract required that the examination be performed in accordance with generally accepted government auditing standards and the American Institute of Certified Public Accountants' Statement on Auditing Standards Number 70, *Reports on the Processing of Transactions by Service Organizations*, as amended.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Service Auditors' Report; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

In its examination of BPD's controls, KPMG LLP found:

- the *Description of Controls Provided by the BPD* presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of July 31, 2009,
- that these controls are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and Fund Agencies and sub-service organizations applied the controls contemplated in the design of BPD's controls,

- that the controls tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period from August 1, 2008 to July 31, 2009, and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on BPD's description of controls, the suitability of the design of these controls and the operating effectiveness of controls tested or a conclusion on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated September 18, 2009 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Mark S. Levitt, Manager, Financial Audits at (202) 927-5076.

Attachment

**U.S. Department of the Treasury  
Bureau of the Public Debt**

**Federal Investments Branch  
General Computer and  
Investment/Redemption Processing Controls**

**(REDACTED VERSION)**

**Report on Controls Placed in Operation and  
Tests of Operating Effectiveness  
For the Period August 1, 2008 to July 31, 2009**

**U.S. DEPARTMENT OF THE TREASURY  
BUREAU OF THE PUBLIC DEBT  
FEDERAL INVESTMENTS BRANCH**

**REPORT ON CONTROLS PLACED IN OPERATION AND  
TESTS OF OPERATING EFFECTIVENESS**

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**I. INDEPENDENT SERVICE AUDITORS' REPORT  
PROVIDED BY KPMG LLP**



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Service Auditors' Report**

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Public Debt and the  
Assistant Commissioner, Office of Public Debt Accounting

We have examined the accompanying description of the general computer and investment/redemption processing controls related to the Federal Investments Branch (FIB) of the Bureau of the Public Debt (BPD). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to a Fund Agencies' internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and Fund Agencies and sub-service organizations applied the controls contemplated in the design of BPD's controls; and (3) such controls had been placed in operation as of July 31, 2009. BPD uses services provided by other organizations external to BPD ("sub-service organizations"). A list of sub-service organizations is provided in Section II of this report. Our examination did not extend to controls of sub-service organizations. Therefore, the accompanying description includes only those controls and related control objectives of BPD, and does not include control objectives and related controls of sub-service organizations. The control objectives were specified by the management of BPD. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and applicable *Government Auditing Standards* issued by the Comptroller General of the United States and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of July 31, 2009. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and Fund Agencies and sub-service organizations applied the controls contemplated in the design of BPD's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Section III, to obtain evidence about their effectiveness in meeting the control objectives, described in Section III, during the period from August 1, 2008 to July 31, 2009. The specific controls and the nature, timing, extent, and results of the tests are listed in Section III. This information is being provided to Fund Agencies of BPD and to their auditors to be taken into consideration, along with information about the internal control of Fund Agencies, when making assessments of control risk for Fund Agencies. In our opinion, the controls that were tested, as described in Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from August 1, 2008 to July 31, 2009.



The relative effectiveness and significance of specific controls at BPD and their effect on assessments of control risk at Fund Agencies are dependent on their interaction with the controls, and other factors present at individual Fund Agencies. We have performed no procedures to evaluate the effectiveness of controls at individual Fund Agencies.

The description of controls at BPD is as of July 31, 2009, and the information about tests of the operating effectiveness of specific controls covers the period from August 1, 2008 to July 31, 2009. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at BPD is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions.

The information in Section IV of this report is presented by BPD to provide additional information and is not a part of BPD's description of controls placed in operation. The information in Section IV has not been subjected to the procedures applied in the examination of the description of the controls applicable to the processing of transactions for Fund Agencies and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of BPD, its Fund Agencies, the independent auditors of its Fund Agencies, the U.S. Department of the Treasury Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

September 18, 2009

**II. DESCRIPTION OF CONTROLS PROVIDED BY THE BUREAU OF THE  
PUBLIC DEBT**

## OVERVIEW OF OPERATIONS

Treasury Directive 27-02, *Organization and Functions of the Fiscal Services*, dated May 23, 1997, established the Bureau of the Public Debt's (BPD) responsibility to invest, approve schedules for withdrawals, and maintain accounts for the Federal Trust and Deposit Programs as directed by statute, and certify interest rates determined by the Secretary of the U.S. Department of Treasury.

BPD has assigned these responsibilities to the Division of Federal Investments (DFI), with the exception of interest certification, which is assigned to the Debt Accounting Branch. DFI manages two functional areas: Trust Funds Management Branch (TFMB) and Federal Investments Branch (FIB). FIB is responsible for processing investment transactions for 251 Federal funds, authorized by law or the Secretary of the Treasury, that comprise the balances of the Government Account Series (GAS). FIB processes these investment transactions based on direction provided by the Federal agencies, which have programmatic responsibility for the use of the fund balances (the Fund Agencies). FIB employs ten personnel and processes an average of 300 transactions daily. FIB also performs the following operational duties:

- Analyzes provisions and limitations of public laws relating to investments for each account.
- Establishes and controls the record keeping of Fund Agencies' accounts by receiving and issuing investment documents such as the Request for Investment and Redemption of Securities, Investment Confirmations and Monthly Statement of Account.
- Provides daily and monthly reports to Fund Agencies reflecting account activities and balances.

Investment and redemption transaction records are maintained in both paper and electronic form. Confirmations are available in FedInvest and Monthly Statements of Account are available in FedInvest and are also published on the TreasuryDirect website for retrieval and review by Fund Agencies. FIB maintains and operates the InvestOne accounting system to perform the operational duties stated above. The InvestOne accounting system is a transaction-based accounting system for recording and processing investment security transactions for each of the accounts and provides information to the Public Debt Accounting and Reporting System (PARS) and the Intragovernmental Payment and Collection System (IPAC). The InvestOne accounting system computes daily, monthly, quarterly, semiannual, and annual interest income for each account for each security held. It also calculates amortization, investment discount and premium for investment and redemption transactions, Inflation Compensation Earned on the Treasury Inflation Protected Securities (TIPS), and maintains summary account balances for each account as well as balances by type of security. Fund Agencies use FedInvest, a web-based extension of InvestOne, to enter investment and redemption requests, view transaction information, and obtain confirmations and reports. Internal Fund managers use FedInvest and two additional extensions, Customer Role Management (CRM) and Rate Price Administration (RPA), to process transactions, manage users and accounts, and manage the application of pricing, rates, and pending transactions.

FIB processes investment transactions based on requests from Fund Agencies regarding security type, maturity, and amount. Fund Agencies submit the investment/redemption requests via the Internet using FedInvest. When necessary, Fund Agencies can submit the investment/redemption requests via fax, email, or hard copy form. The investment and redemption request processing for Fund Agencies is summarized as follows.

## **Investment Request Processing**

To establish access to FedInvest, the Fund Agency completes a FedInvest Logon-ID Request form and provides the form to a supervisor for approval. The supervisor reviews and approves the form and submits the form to FIB. FIB verifies that the information is complete then e-mails the IT Service Desk to request that the user be added to Contact Management. Once IT Service Desk notifies FIB that the user has been added to Contact Management, FIB provides the FedInvest Logon-ID Request form to the Division of Systems and Program Support (DSPS) Information System Security Representatives (ISSRs) for user set-up in FedInvest. OIT provides the new user with their user id and temporary password and contacts the user to login to FedInvest with the temporary password, answer security questions, and change the password. FIB then coordinates FedInvest training with the new user. When a FedInvest user is terminated, the Fund Agency uses the above stated form to revoke access and submits the approved form to FIB. FIB follows the same process stated above to revoke the user.

Fund Agency users access FedInvest using their user ID and password. The Fund Agency user selects the Account Fund Symbol (AFS), date, security type, and investment amount in FedInvest.

**Before Prices Loaded** – The FedInvest user may enter investment requests before prices are loaded in the system for up to 10 business days in the future except for Zero Coupon Bonds and Special Issue Certificates of Indebtedness. Upon submission of the request, the user receives a confirmation number which is proof to the customer that their request was accepted. When prices are loaded by the FIB accountant into the InvestOne accounting system, the FIB accountant uses the FedInvest RPA module to load the prices into FedInvest, publish them on the website, and apply the prices to the pending investment transactions. Once the price has been applied to the transaction, it is automatically posted to the InvestOne accounting system evidenced by the replacement of the confirmation number with a memo number on the confirmation available to the user in FedInvest.

**After Prices Loaded** – The FedInvest user may enter investment requests after prices are loaded except for Zero Coupon Bonds. Since FedInvest interfaces with the InvestOne accounting system, the InvestOne accounting system automatically assigns a memo number and applies the price/rate. A confirmation of results is available in FedInvest to FedInvest users.

**Zero Coupon Bond securities** – The FedInvest user must enter investment requests by 11:00 am EST. FedInvest sends the request by email to the FIB accountants who forward the request to the U.S. Department of Treasury's, Office of Debt Management (ODM) for pricing. ODM prices the purchase of the Zero Coupon Bond at approximately 12:00 pm EST and forwards the results to FIB by email. The FIB accountant enters the pricing results into the InvestOne accounting system, posts the transaction, and forwards the memo number to the FedInvest user. A confirmation of results is available in FedInvest to the FedInvest user.

FIB may receive investment requests via fax, email, or hard copy from Fund Agencies when necessary. A FIB accountant enters the request into FedInvest or the InvestOne accounting system on behalf of the Fund Agency. Then two FIB accountants compare the transaction confirmation to the investment request to ensure the investment request is recorded accurately, posted to the correct day, and then initial the investment request to document their review. A confirmation of results is available in FedInvest to the FedInvest user the same day. On the following business day, a FIB accountant compares the InvestOne Spectra report (Prior Day Review) to the investment requests submitted by the Fund Agency to ensure transactions were properly entered into the InvestOne accounting system.

## **Redemption Request Processing**

To establish access to FedInvest, the Fund Agency completes a FedInvest Logon-ID Request form and provides the form to a supervisor for approval. The supervisor reviews and approves the form and submits the form to FIB. FIB verifies that the information is complete and e-mails the IT Service Desk to request that the user be added to Contact Management. Once IT Service Desk notifies FIB that the user has been added to Contact Management, FIB provides a copy of the FedInvest Logon-ID Request form to the DSPS ISSRs for user set-up in FedInvest. OIT provides the new user with their user id and temporary password and contacts the user to login to FedInvest with the temporary password, answer security questions, and change the password. FIB then coordinates FedInvest training with the new user. When a FedInvest user is terminated, the Fund Agency uses the above stated form to revoke access and submits the approved form to FIB. FIB then goes through the same process stated above to revoke the user.

Fund Agency users access FedInvest using their user ID and password. The Fund Agency user selects the AFS, date, inventory method (First-In First-Out (FIFO) or Specific ID), security type, and redemption amount in FedInvest.

Before Prices Loaded – The FedInvest user may enter Market-based bill, note, and bond redemption requests using the FIFO inventory method before prices are loaded in the system for up to 10 business days in the future. Upon submission of the request, the user receives a confirmation number which is proof to the customer that their request was accepted. When prices are loaded by the FIB accountant into the InvestOne accounting system, the FIB accountant uses the FedInvest RPA module to load the prices into FedInvest, publish them on the website, and apply the prices to the pending redemption transactions. Once the price has been applied to the transaction, it is automatically posted to the InvestOne accounting system evidenced by the replacement of the confirmation number with a memo number that is also on the confirmation available to the user in FedInvest.

After Prices Loaded – The FedInvest user may enter Market-based bill, note, bond and TIPS redemption requests using the FIFO or Specific ID inventory methods after prices are loaded in the InvestOne accounting system and FedInvest. If Fund Agencies have tax lots (a group of the same securities purchased on different dates) and decide to apply the specific identification method rather than the FIFO method to redeem from specific tax lots, Fund Agencies need to select “Specific ID” inventory method to override the InvestOne accounting system default setting of the FIFO method, and enter the principal amount to redeem for each tax lot. Since FedInvest interfaces with the InvestOne accounting system, the InvestOne accounting system automatically assigns a memo number and applies the price/rate. A confirmation of results is available on FedInvest to FedInvest users.

Par-value securities - Special par-value securities have unique redemption rules that require the InvestOne accounting system to redeem them based on the order of earliest maturity date, lowest prevailing interest rate, and FIFO. The FedInvest user receives a confirmation with a confirmation number and a message that the Redemption rules will be applied in accordance with Treasury Fiscal Policy. The transaction will be pending until after the close of business on the effective date. At close of business (after 3:00 pm EST) on the effective date of the redemption, the FIB accountant uses the FedInvest RPA module to run the Post Par Value Sell Transactions that will process, post, and assign memo numbers to the pending redemption requests in the InvestOne accounting system using the unique redemption rules. A confirmation of results is available in FedInvest to the FedInvest users.

Zero Coupon Bond securities – The FedInvest user must enter redemption requests into FedInvest (by 11:00 am EST) and FedInvest sends an email to the FIB accountants who forward the request

to ODM for pricing. ODM prices the redemption of the Zero Coupon Bond at approximately 12:00 pm EST and forwards the results to FIB via email. The FIB accountant enters the pricing results into the InvestOne accounting system, posts the transaction, and forwards the memo number to the FedInvest user. A confirmation of results is available in FedInvest to the FedInvest users.

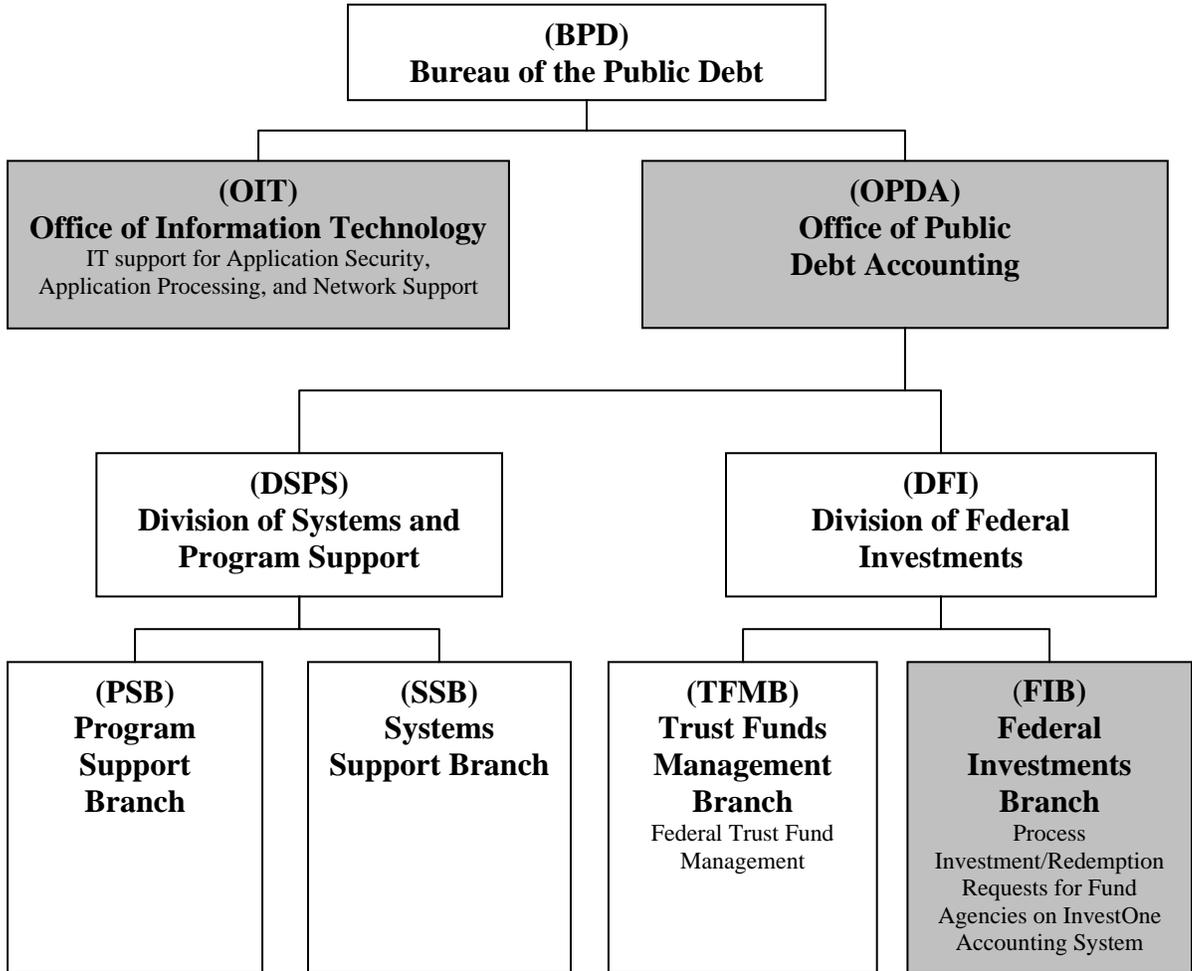
FIB may receive redemption requests via fax, email, or hard copy from Fund Agencies when necessary. A FIB accountant enters the request into FedInvest or InvestOne accounting system on behalf of the Fund Agency. Then two FIB accountants review and initial the redemption request. A confirmation of results is available in FedInvest to the FedInvest users the same day. On the following business day, a FIB accountant compares the InvestOne Spectra report (Prior Day Review) to the redemption requests submitted by the Fund Agency to ensure the transactions were properly entered into the InvestOne accounting system.

FIB obtains and applies open market prices for securities negotiated by brokers and dealers of government securities from the U.S. Department of the Treasury's ODM and the Federal Reserve Bank (FRB) of New York.

FIB functions do not encompass monitoring or determining rates, types and maturities of government marketable securities. The Office of Information Technology (OIT) provides application security (including passwords), processing, and report programming support to FIB including regular maintenance programming and user-requested program enhancements.

The BPD organization chart as it relates to FIB SAS70 follows on the next page.

## ORGANIZATIONAL CHART



## **RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT, RISK ASSESSMENT, AND MONITORING**

### **Control Environment**

Operations are primarily under the direction of the Office of the Director of the Division of Federal Investment (DFI) and the Director of the DSPS, which represent the functional areas listed below:

- *Administrative development:* Coordinates various aspects of FIB operations. Identifies areas requiring internal controls and implements those controls. Performs systems planning, development, and implementation. Reviews network operations and telecommunications and performs disaster-recovery planning and database administration.
- *Fund support:* Supports end users (Fund Agencies) in all aspects of their use of the application system including research and resolution of identified problems.
- *Operations:* Manages daily computer operations, production processing, report production and distribution, and system utilization and capacity.

The DFI and DSPS hold bi-weekly management meetings to discuss special processing requests, operational performance, and the development and maintenance of projects in process. Written position descriptions for employees are maintained. The descriptions are inspected annually and revised as necessary.

References are sought and background, credit, and security checks are conducted for all BPD personnel when they are hired. Additional background, credit, and security checks are performed every three to five years. The confidentiality of user-organization information is stressed during the new employee orientation program and is emphasized in the personnel manual issued to each employee. BPD provides a mandatory orientation program to all full time employees and encourages employees to attend other formal outside training.

All BPD employees receive an annual written performance evaluation and salary review. These reviews are based on goals and objectives that are established and reviewed during meetings between the employee and the employee's supervisor. Completed appraisals are reviewed by senior management and become a permanent part of the employee's personnel file.

### **Risk Assessment**

BPD has placed into operation a risk assessment process to identify and manage risks that could affect FIB's ability to provide reliable transaction processing for users. This process requires management to identify significant risks in their areas of responsibility and to implement appropriate measures to manage these risks.

Additionally, all mission-critical systems and general support systems are subject to an internal risk-based review every three years. This review identifies assets and possible threats to these assets, provides a measure of vulnerability of the system to these threats, and confirms control or protective measures are in place.

### **Monitoring**

BPD management and supervisory personnel monitor the quality of internal control performance as a normal part of their activities. To assist them in this monitoring, BPD has implemented a series of "key indicator" management reports that measure the results of various processes involved in providing transaction-processing services to Fund Agencies. Key indicator reporting consists of PARS posting summary reports to validate accuracy. All exceptions to normal or

scheduled processing through hardware and software, or procedural problems are also logged, reported and resolved daily. These reports are inspected daily and weekly by appropriate levels of management, and action is taken as necessary.

## **INFORMATION AND COMMUNICATION**

### **Information Systems**

#### **InvestOne Accounting System Description**

The InvestOne accounting system is a vendor supplied accounting package used to record and report investment fund activity processed by FIB. InvestOne is licensed by SunGard Investment Systems, Inc. (SunGard). The InvestOne accounting system resides on BPD's mainframe. OIT provides the primary support for maintaining the InvestOne accounting system. This includes mainframe operations (batch processing and reporting), custom report writing, application change management, data management, tape backup and recovery, user access security, remote access, and continuity management. The InvestOne accounting system is accessed through the network using a terminal emulator software product that enables communication with OIT mainframe applications. The InvestOne accounting system also provides a report writer package called Spectra that provides users with the ability to create their own reports. FIB uses Spectra to create reports, which provide functionality not included in the standard InvestOne reports.

FIB also receives supporting documentation/reports on a daily basis from internally-developed programs created by programmers. These programs read the data from the InvestOne accounting system and create various reports to assist in FIB's daily processing. Specifically, data is downloaded from the InvestOne accounting system to a data file located on the servers where the programs execute. Data is not sent from these programs to the InvestOne accounting system.

#### **FedInvest Description**

FedInvest is a SunGard-developed, web-based extension to the InvestOne accounting system that provides access to the federal investments information through the Internet. The system allows federal investment fund managers to assume direct responsibility for managing their respective accounts. Using FedInvest, federal agencies are able to input transactions into the InvestOne accounting system, as well as view account statements and transaction information over the Internet. Additionally, FedInvest provides an interface to the InvestOne accounting system for internal fund managers in BPD's DFI. FedInvest includes edits that serve to enforce federal investment program policies resulting in improved data quality in the InvestOne accounting system.

FedInvest also includes two extensions that are available only to BPD internal users. The Customer Role Management (CRM) module is used by DSPS ISSRs to manage FedInvest users and their access to associated investment account information. CRM is used by FIB accountants to manage security type and account information. CRM is also used to create and post broadcast messages (announcements) that are seen by users signed onto the system, and establish e-mail communication to all system users and their agency Chief Financial Officers. The Rate Price Administration (RPA) module is used by FIB accountants to load rates/prices, publish rates/prices on the TreasuryDirect website, apply prices to pending market-based transactions, post pending par-value redemption transactions, and update FedInvest with the Consumer Price Index (CPI) for processing TIPS transactions.

### **Communication**

BPD has implemented various methods of communication to ensure that all employees understand their individual roles and responsibilities over transaction processing and controls. These methods include orientation and training programs for newly hired employees, and use of electronic mail messages to communicate time sensitive messages and information. Managers also hold periodic staff meetings as appropriate. Every employee has a written position

description that includes the responsibility to communicate significant issues and exceptions to an appropriate higher level within the organization in a timely manner.

## FUND AGENCY CONTROL CONSIDERATIONS

BPD's general computer and investment/redemption processing controls related to FIB were designed with the expectation that certain internal controls would be implemented by Fund Agencies. The application of such controls by the Fund Agencies is necessary to achieve all control objectives identified in this report, since FIB is a servicing organization that processes transactions that directly affect Fund Agencies.

This section describes certain controls that Fund Agencies should consider for achievement of control objectives identified in this report. The Fund Agency control considerations presented below should not be regarded as a comprehensive list of all controls that should be employed by Fund Agencies. Fund Agencies should establish controls to:

- Ensure that access to FedInvest is restricted to properly authorized individuals.
- Provide applicable legislation to FIB, and any subsequent legislation revisions, that authorizes the Fund Agency to invest.
- Verify the authority to invest prior to submitting investment/redemption requests.
- Ensure that only authorized personnel sign requests or submit transactions in FedInvest.
- Ensure that the submission of investment/redemption requests in FedInvest is accurate and completed prior to 3:00 pm EST (11:00 am EST for Zero Coupon Bonds).
- Notify FIB if the investment/redemption requests have been processed incorrectly so that correcting transactions may be processed before 3:00 pm EST.
- Review investment/redemption/maturity/interest confirmations and Monthly Statements of Account to ensure that each request was processed accurately, timely, and in accordance with their instructions.
- Track investment/redemption confirmations to ensure that the Fund Agency FedInvest user correctly processes all requests.
- Review and reconcile all transaction confirmations to determine that they are accurate and complete, and report discrepancies to FIB so that correcting transactions may be processed before 3:00 pm EST.
- Review adjustments and make prompt and appropriate journal entries to the accounting records, to adjust the investment and interest account balances.
- Review Monthly Statements of Account to verify that adjustments were processed completely and accurately.
- Ensure that the requested investment returns the appropriate amount of interest to meet investment income goals.
- Reconcile interest payments received as presented in the confirmations and Monthly Statements of Account and recalculate interest for accuracy.

- Approve reinvestments of interest after review for accuracy, completeness, and compliance with instructions.
- Recalculate interest accrual and amortization of premium and/or discount and compare the results to the BPD provided monthly Accrual Confirmation and Accrual Activity Reports.
- Report any interest accrual discrepancies noted on the monthly Accrual Confirmation and Accrual Activity Reports to BPD for resolution.
- Report any premium and/or discount amortization discrepancies noted on the monthly Accrual Confirmation and Accrual Activity Reports to BPD for resolution.
- Review FIB provided Monthly Statements of Account to ensure that transactions are recorded accurately and timely, and report discrepancies to FIB so correction processes may occur.
- Reconcile investment activity from Financial Management Service application Governmentwide Account Statements to the FIB provided Monthly Statements of Account to verify that investment activity is being properly reported by FIB on the Fund Agencies' behalf.

Specific Fund Agency control considerations are provided for Control Objectives 5, 8, 9, 10, 11, 13, 14, and 15 in the Control Objectives, Related Controls, and Tests of Operating Effectiveness section of this report.

## SUB-SERVICE ORGANIZATIONS

In order to provide investment/redemption processing services, FIB relies on systems and services provided by other organizations external to BPD (“sub-service organizations”). The following describes the sub-service organizations used by FIB that are included in this report. KPMG LLP’s examination did not extend to controls of these sub-service organizations and associated systems.

<b>Name of Sub-service Organization</b>	<b>Function/Responsibilities</b>
Federal Reserve Bank (FRB) of New York	On a daily basis, FIB obtains Treasury Price Quote files via digital certificate from a secure FRB website. FIB uses these price quote files to calculate the market-based security prices that can be loaded into the InvestOne accounting system and compared to the price files provided by ODM. On a daily basis, FIB received a daily repurchase rate for one-day certificates from the FRB of New York through November 2, 2008. Beginning November 3, 2008, the one-day rate is linked to the shortest regularly issued Treasury security, currently the 4 week bill. FIB receives this from the Office of Debt Management (see below).
Treasury – Office of Debt Management (ODM)	On a daily basis, the ODM provides FIB the daily security price files for market-based transactions. Additionally, as needed, ODM provides FIB with the Zero Coupon Bond pricing. Beginning November 3, 2008, ODM provides FIB the Daily Market Quotations on Most Recently Auctioned Treasury Bills used for the rate for the one-day certificates.
Treasury – Financial Management Service (FMS)	Treasury’s FMS provides daily and monthly reports to FIB, including IPAC reports, and GWA account statements. FIB uses these reports to verify the accurate posting of transactions and data.

**III. CONTROL OBJECTIVES, RELATED CONTROLS, AND  
TESTS OF OPERATING EFFECTIVENESS**

## GENERAL COMPUTER CONTROLS

### Control Objective 1 – System Software

Controls provide reasonable assurance that implementation and changes to system software are authorized, tested, approved, properly implemented, and documented.

#### Description of Controls

The Bureau of the Public Debt (BPD) has documented procedures for the authorization, testing, approval, implementation, and documentation of system software changes.

The InvestOne accounting system operates within a mainframe environment<sup>1</sup>. The FedInvest system is operated within a client-server environment<sup>2,3</sup>. Mainframe and client-server system software products are under vendor control for maintenance and support. Upgrades to these products are obtained from the vendors and installed by the Office of Information Technology (OIT) specialists.

For system software changes, BPD uses the iET product for change management. All system software changes (i.e., new product installations, maintenance upgrades, etc.) require a change record to be opened in iET. A change record can be opened by any specialist in OIT's division responsible for effecting such changes or the change control coordinator. The iET change record includes a description of the change, implementation date of the change, a justification, and a back-up/back-out plan.

Changes are initially discussed at the weekly change control meetings. Attendees include OIT representatives impacted by the proposed change. Notification is sent to the assistant commissioner, division directors, branch managers and/or staff personnel. Following the meeting, the change control coordinator prepares and distributes the Weekly Change Control Memorandum with information on changes for the upcoming week. This memorandum describes the system changes, effective dates, reasons for changes or problems the changes will resolve. There is also a reference to the iET change control number.

Before system software changes can be moved to production, they are tested in accordance with the BPD's system software change control procedures. These procedures document the authorization, testing, approval, implementation, and documentation requirements for system software changes. Changes progress through various environments, which differ according to the type of system infrastructure. For the mainframe, there are three separate environments: test,

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<sup>1</sup> Which consists of the following system software products:

(  
b  
)  
2



<sup>2</sup> The FedInvest system is composed of the following system software components:

(  
b  
)  
2



<sup>3</sup> Reliant Services:

(  
b  
)



)  
(  
2  
)

acceptance, and production. Each environment is a logical environment with its own software, datasets, and libraries. Mainframe changes are first tested by a programmer in the test environment; changes are moved to the production environment following approval. For changes to distributed software, changes are promoted up through integration, acceptance, and production regions within similar controls described above.

All changes are reviewed and coordinated at the weekly change control meeting, and approved by the change control coordinator prior to being moved into the production environment.

All emergency changes follow the same process as indicated above, with the exception that changes move through the environments at an accelerated rate. Testing and approval of these changes are documented in iET.

BPD has established a process that allows system programmers and database administrators to have temporary access to the Production mainframe environment through the use of a "fire-call" ID product that allows them elevated privileges for system software and application changes. The operating system is configured to monitor and log such activity for review and approval by management; management reviews these logs within a reasonable timeframe after the use of "fire-call".

OIT reviews the use of sensitive system utilities included in the protected programs group on a weekly basis and limits access to these programs based on job responsibility.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected written procedures for system software configuration management and determined that procedures were documented, including procedures to document, test, authorize, and approve system software changes, and properly implement changes into production.
2. Inspected the emergency system software change procedures and determined that procedures for implementing emergency system software changes were documented, including approval by management.
3. Inspected vendor maintenance support contracts for system software and determined that the contracts existed and were current.
4. For a selection of system software change records, inspected iET tickets and determined that iET was used throughout the examination period to log, track, and monitor system software changes.
5. For a selection of dates, inspected Weekly Change Control Memorandums and determined that weekly change control meetings were held to discuss planned changes with the potential to impact the InvestOne accounting system or FedInvest application system software.
6. For a selection of system software changes and emergency system software changes, inspected supporting documentation and determined that the changes were tested, authorized, and approved prior to implementation.
7. For a selection of system software changes, inspected supporting documentation and determined that the changes were approved.
8. Inspected a list of users with access to use fire-call and determined that the list was commensurate with job responsibilities.

9. For a selection of days, inspected fire-call logs and evidence of review, and determined that fire-call logs were reviewed by OIT management.
10. For a selection of weeks, inspected evidence of OIT's review of reports for sensitive system utilities in the protected programs group and determined that the reports were reviewed.

No exceptions noted.

## **Control Objective 2 – Vendor Software**

Controls provide reasonable assurance that implemented new releases of vendor-supplied applications are authorized, tested, approved, properly implemented, and documented.

### **Description of Controls**

BPD has documented procedures for the testing and authorization of new releases of vendor supplied applications. The change control process is under the control and direction of the Office of Public Debt Accounting (OPDA).

The InvestOne accounting system is licensed by SunGard Investment Systems, Inc (SunGard). BPD has a maintenance and support contract for InvestOne with SunGard. For the period of August 1, 2008 through September 30, 2008, BPD also had a maintenance and support contract for the FedInvest system with SunGard. Starting on October 1, 2008 through July 31, 2009, OIT was responsible for of all maintenance and support of the FedInvest system.

SunGard periodically provides new releases of InvestOne, including documentation. Each new release requires comprehensive testing. The Division of Systems and Program Support (DSPS) tests new InvestOne releases developed by SunGard consistent with change control procedures for OPDA systems. New InvestOne releases are initially installed in the Test environment where they are subjected to integration testing. After successful completion of testing, the InvestOne new release is migrated by OIT to the Acceptance environment, where it is subjected to acceptance testing by users. An InvestOne new release will be installed in the Production environment only after all testing has been successfully completed and management has approved the new release for implementation in the Production environment. No releases were issued between August 1, 2008 and July 31, 2009.

In addition to new releases, SunGard will periodically provide fix tapes for the InvestOne accounting system. Fix tapes, which address certain InvestOne issues, are narrower in scope than new releases. Based on what changes a particular fix tape includes, BPD management will decide whether or not to implement the fix tape. If BPD management decides to implement the fix tape, the fix tape is migrated through the Test and Acceptance environments. Fix tapes are installed in the Production environment only after successful completion of testing in the Test and Acceptance environments and management approval for migration into the Production environment.

DSPS also tests changes to the InvestOne application reports, developed by SunGard Investment Systems, Inc. using the same change control procedures described above.

In addition, BPD uses the version control software to manage the upgrades and enhancements. Changes are only migrated into the production environment once all responsible parties approve the change in the version control software. Access to migrate changes via the version control software is limited based on job responsibility.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected procedures for the implementation of new releases of vendor supplied applications, and determined that they were documented and included requirements for authorization, testing, documentation, and approval.
2. Inspected vendor maintenance support contracts for the InvestOne accounting system software and determined that the contracts existed and were current.

3. Inspected vendor maintenance support contracts for FedInvest software and determined that the contracts existed and were current.
4. Observed the version of the InvestOne accounting system and compared it to the prior year version and noted that the version had not changed during the period under examination.
5. For the fix tapes implemented during the examination period, inspected documentation of test results and approvals for implementation and determined that the fix tapes had been tested and approved prior to implementation into production.
6. Inspected version control software access permissions and determined that access permissions to migrate changes to the production environment were restricted commensurate with job responsibilities.

No exceptions noted.

### Control Objective 3 – Program Change Control

Controls provide reasonable assurance that development of new applications and changes to existing applications are authorized, tested, approved, properly implemented, and documented.

#### Description of Controls

BPD has documented procedures for the authorization, testing, approval, implementation, and documentation of application software changes. The change control process is under the control and direction of OPDA.

SunGard has custom built additional application components for InvestOne data entry and reporting. Included is the FedInvest application, which functions as a web-based user interface that customer agencies can use for entering transactions into the InvestOne accounting system. For reporting, BPD has built internally-developed programs utilizing RM (desktop) COBOL and mainframe COBOL that generate customized reports to provide information unavailable in the standard InvestOne reporting package.

For RM COBOL, OIT uses a version control software<sup>4</sup> to control access to source code for these internally-developed programs and to facilitate version control by requiring developers to check source code in and out using version control software. These programs read the data from the InvestOne accounting system and create reports. Specifically, data is downloaded from InvestOne, using standard InvestOne processes, to a data file on the mainframe then via ftp to the servers where the programs execute. Data is not sent from these programs to the InvestOne accounting system. The reports are used by the trust fund managers, sent to Fund Agencies, or sent to U.S. Department of Treasury’s Financial Management Service, the Office of Debt Management and Office of Fiscal Projection. The Congressional Budget Office also receives reports generated from the InvestOne accounting system.

For mainframe COBOL, OIT uses a version control software<sup>5</sup> to control access to source code for these internally-developed programs and to facilitate version control. These programs were developed by OIT and reside on the mainframe, where these programs execute.

For FedInvest and customized reports, OIT uses a version control software<sup>6</sup> to control access to source code for the vendor supplied and BPD managed programs to facilitate version control. Changes to FedInvest were developed by SunGard between August 1, 2008 and September 30, 2008 and by OIT between October 1, 2008 and July 31, 2009.

DSPS provides support for the design and testing of the above changes. DSPS creates the requirements documentation, which is then provided to OIT (or SunGard) for development. DSPS manages the request, documentation, testing, and approval process using a Change Control Checklist and iET.

Changes using version control software progress through three separate environments: Test or Integration, Acceptance, and Production. A change is first tested by the programmer in the Test or Integration environment. It is then migrated to the Acceptance environment where a user tests the change using example transactions and Acceptance environment files and libraries.

Each change is reviewed by the user groups that are affected by the change, and each group provides user concurrence that they accept the change. Following user concurrence, a senior staff member reviews the testing materials and completes the Change Control Checklist indicating that

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<sup>4</sup> (b) (2) [REDACTED]  
<sup>5</sup> (b) (2) [REDACTED]  
<sup>6</sup> (b) (2) [REDACTED]

testing has been completed. The package is provided to the DSPS Branch Manager for final review and approval.

Once the DSPS Branch Manager approves the change, DSPS sends a Network Services Request to OIT to move the change into the Production environment. Upon notification of an accepted change, OIT creates an update package in version control software. Only approved changes are installed in the Production environment.

For mainframe COBOL, the version control software is an application through which users approve changes. This version control software is also used to move changed program files into the Production environment. This version control software will not allow changes to be migrated from the Acceptance environment into production until the changes have been approved. Access to migrate changes to Production via the version control software change control software is limited based on job responsibility.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected application software change procedures and determined that they were documented and included requirements for authorization, testing, documentation, and approval.
2. Inspected the access permissions and inquired of OIT management and determined that access to source code for internally-developed programs was commensurate with job responsibilities, with the following exception noted:
  - A member of OIT had the capability to make a change to the RM COBOL source code and migrate the changed source code into the production environment. In addition, when an OIT programmer makes a change to the RM COBOL source code, it is the programmer's responsibility to initiate a code review by another member of OIT. Under this process, coupled with the item noted above, it is possible that code may be migrated without review or approval.

Management Response: BPD is in the process of developing a new standard operating procedure for migration of RM COBOL code to production which will not allow the programmers making changes, to migrate the code into production.

3. Inspected the access control lists for FedInvest and customized reports version control software and determined that access to the source code for FedInvest was commensurate with job responsibilities.
4. Inspected a selection of change records in iET and determined that iET was used throughout the examination period to log, track, and monitor application software changes.
5. For a selection of application software changes, inspected supporting documentation and determined that the changes were tested and approved.
6. Inspected version control software access permissions and determined that access permissions to migrate changes to the production environment were restricted commensurate with job responsibilities for mainframe COBOL and FedInvest.

No exceptions noted, except as described above.

## Control Objective 4 – Physical Access

Controls provide reasonable assurance that physical access to computer equipment and storage media is restricted to authorized individuals.

### Description of Controls

BPD has documented policies and procedures for controlling physical access to BPD buildings and to the data center. These include:

- Identification of sensitive/critical areas to which access needs to be restricted.
- Physical access controls designed to detect unauthorized access.
- Procedures for log reviews and investigation of violations.

The InvestOne mainframe and FedInvest servers reside in OIT's data center. Various physical access controls protect the facilities.<sup>7</sup>

The Security Branch issues employee badges, after performing security background checks and fingerprinting.

Employees are required to have badges available at all times upon request.

Terminated employees are required to surrender identification badges and are removed from the database security system immediately.

Physical access to the OIT Data Center is restricted to authorized users only. An employee needing access to the data center must have his/her Branch Manager request access. The requests are made through iET, a workflow system that is used to approve data center access. After the Branch Manager completes and submits the iET request form, requests are forwarded to OIT's data center managers for approval in the iET. If OIT approves the request, the BPD Division of Security and Emergency Preparedness (DSEP) Security Branch grants access. Access to all sensitive areas requires use of a badge. The use of a badge provides an audit trail that is reviewed by OIT management monthly for potential access violations. Any unauthorized access attempts are followed-up on by contacting the individual's supervisor. Individuals without badge access to the data center must be escorted to the command center and are required to sign in/out of a Visitor log to be issued a data center visitor badge. Visitor badges do not have access to the data center, but rather designate the individual as a visitor. A visitor log is maintained at the main entrance to the data center.<sup>8</sup>

OIT performs a monthly review and reconciliation of individuals with data center access to individuals authorized to have data center access. Additionally, OIT performs an annual review and recertification of individuals with access to the data center. If an individual is found to have unauthorized data center access, OIT will, based on the individual's need for access, make a decision whether to request that DSEP remove their data center access or whether to provide authorization for their access.

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<sup>7</sup>Armed security guards man and monitor BPD facilities 24 hours a day, 7 days a week. A digital video camera system monitors all entrances, the building perimeter, and certain interior areas, including the data center, and records activity 24 hours a day.

All people entering each building are required to place any materials, packages, bundles, etc. onto an x-ray machine. Entrants are also required to pass through a walkthrough metal detector. An activation of the walkthrough metal detector results in further screening by the security guard, utilizing a handheld metal detector to identify the source of activation. In addition, entrants must swipe their badges into an access control system that grants access to authorized personnel.

<sup>8</sup> Only designated DSEP specialists have access to PACS. Vendors that are authorized to have a badge are issued a One-day badge and must leave their access badge onsite following completion of work in the data center. A log of One-Day badges is maintained and reviewed (b) .

## Tests of Operating Effectiveness and Results of Testing

1. Inspected physical access policies and procedures for the data center and determined that they were documented and included the identification of sensitive/critical areas to which access needs to be restricted, physical access controls designed to detect unauthorized access, and procedures for log reviews and investigation of violations.
2. Observed physical access controls of BPD buildings and the OIT data center and noted that security guards, video cameras, badge readers, displayed badges by employees, and locked doors were in place and in operation to restrict access.
3. Observed persons entering BPD buildings and noted that persons were required to place any materials, packages, bundles, etc. onto an x-ray machine, and additionally were required to pass through a walkthrough metal detector.
4. Observed persons entering BPD buildings and noted that an activation of the walkthrough metal detector resulted in further screening by the security guard, utilizing a handheld metal detector to identify the source of activation.
5. Observed entrants swipe their badges into the access control system and noted that the controls system granted access to authorized personnel.
6. For a selection of personnel granted data center access, inspected supporting documentation and determined that access badges were issued to personnel with a completed background check and fingerprinting.
7. Observed employees within the BPD buildings and noted that badges were displayed.
8. Inspected the data center access list and compared to a list of separated employees and determined that separated employees were removed from the badge reader system.
9. Inspected a list of employees with card key access to the data center and tape storage room from the card security system and an OIT phone list showing employees requiring access to the data center and tape storage room and determined that physical access to the OIT data center was restricted to authorized employees only.
10. For a selection of employees and contractors granted access to the data center during the examination period, inspected the iET record for the access grant and determined that access was approved by the data center manager.
11. Inspected permissions to access the PACS badge system of BPD security management, and determined that access permissions to the physical access systems were commensurate with job responsibilities.
12. For a selection of months, inspected evidence of the monthly review of violation logs and determined that a review to identify unauthorized access attempts was performed and violations were followed-up on.
13. For a selection of dates, inspected visitor logs and determined that visitor logs were reviewed by OIT management.

14. For a selection of days, inspected shift logs and determined that an inventory of vendor badges was performed.
15. Inspected documentation of the semi-annual review of physical access privileges to the data center and determined that access privileges were reviewed.
16. Inspected documentation of the annual recertification of physical access privileges to the data center and determined that access privileges were recertified.

No exceptions noted.

## Control Objective 5 – Logical Access

Controls provide reasonable assurance that logical access to system and application software is restricted to authorized individuals.

### Description of Controls

BPD has guidelines for the preparation of security plans for applications and systems that process Sensitive but Unclassified information. All mission-critical systems and general support systems are subject to an internal risk-based review every three years. This review identifies assets and possible threats to these assets, provides a measure of vulnerability of the system to these threats, and confirms control or protective measures are in place.

The InvestOne accounting system is classified as a mission-critical system.

InvestOne security along with the host mainframe's security package controls access to the InvestOne accounting system. InvestOne restricts access to accounts within the system based on users identification (UID). InvestOne access is restricted to authorized personnel. The security package is also used to restrict OIT personnel's access to system software, database files, and program libraries.

FedInvest is a web-based user interface through which users have access to enter transactions into and view InvestOne accounting system data. External users are limited to accessing InvestOne accounting system data through FedInvest. External users that invest in Government Account Series (GAS) securities are able to connect to FedInvest over the Internet to input transactions into the InvestOne accounting system as well as to view account statements and transaction information.

Administrator access permissions are assigned to FedInvest and the InvestOne accounting system users commensurate with their job responsibilities.

OPDA follows BPD system administration security password guidelines/procedures to establish and maintain passwords.<sup>9</sup> Passwords are not displayed when entered. The reserved word feature is enabled to prevent the use of commonly used words in passwords.

Information System Security Representatives (ISSRs) manage access to the InvestOne accounting system. Users must complete and submit an Access Request/Revoke Form to the Division of Federal Investments (DFI) who approves the form and forwards to DSPS before access is granted. DFI personnel authorize the form and forward to OPDA ISSRs to process the request. DSPS has documented procedures for granting access. Modifications to user accounts require use of the same Access Request/Revoke Form.

External users must have their supervisor's approval along with DFI approval documented on an Access Request/Revoke form before access is granted to FedInvest. When an external user accesses InvestOne data, they enter a user ID and password into FedInvest. User IDs are authenticated by a security utility<sup>10</sup>. If the required authentications failed, the user would be prevented from accessing InvestOne data through FedInvest.

ISSRs remove FedInvest and InvestOne access from users at the request of their managers/supervisors or FIB personnel. Each access removal request is documented on an Access Request/Revoke Form.

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<sup>9</sup> These guidelines require passwords (b) (2)

<sup>10</sup> BPD's standard authentication utility, BPDLogin, is used to authenticate users. (b) (2)

On a routine basis, an ISSR reviews Internal Violations Reports for any inappropriate activity; follow-up is notated on the report.

Additionally, on a periodic basis an ISSR reviews a report of all InvestOne user IDs that have not been used to access InvestOne accounting system within a predetermined number of days<sup>11</sup>. The ISSR follows up with any affected users by email or by phone.

Additionally, OPDA recertifies access to mission critical systems by verifying access privileges for all InvestOne and FedInvest users. DSPS ISSRs remove any user IDs or access privileges identified for deletion by the user's manager/supervisor or DFI personnel when accompanied by a revoke form.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Ensure access to the FedInvest system is restricted to properly authorized individuals.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected the relevant Certification and Accreditation (C&A) of the InvestOne and FedInvest systems and determined that the system had been authorized to operate.
2. Inspected the InvestOne and FedInvest risk assessment and determined that a risk assessment was performed.
3. Inspected the InvestOne and FedInvest security plan and determined that the plan was documented.
4. Observed a user log into the InvestOne accounting system and the FedInvest system and noted that their access was restricted in accordance with the system configuration.
5. For each new InvestOne user, compared access granted to an OPDA Organization Chart and determined that access privileges were commensurate with job responsibilities.
6. Inspected security guidelines and procedures for InvestOne and FedInvest and determined that logical access procedures were documented.
7. Inspected a list of users with administrator access privileges to InvestOne and FedInvest and determined that access was limited commensurate with job responsibilities.
8. Inspected an organizational chart and determined that administrator access was commensurate with job responsibilities.
9. Inspected security guidelines and procedures for InvestOne and FedInvest and determined that logical access controls procedures were documented.
10. Inspected password settings for InvestOne and FedInvest and determined that password length, complexity, and expiration settings were configured in accordance with BPD requirements.

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<sup>11</sup> A list of InvestOne users that have not logged into InvestOne (b) (2) is reviewed (b) (2).

11. Observed a user log into InvestOne and FedInvest and determined that their password was masked as they entered it.
12. For a selection of new InvestOne users, inspected documented user access request forms and determined that access was authorized.
13. For a selection of new FedInvest users, inspected documented user access request forms and determined that access was authorized by DFI and the user's supervisor.
14. Inspected a list of all separated and transferred BPD employees and lists of InvestOne and FedInvest user IDs and determined that access to InvestOne and FedInvest had been revoked for terminated and transferred BPD employees.
15. For a selection of weeks, inspected reports listing InvestOne security administrator actions entered into the system and determined that the reports were reviewed by an ISSR and any exceptions were followed-up.
16. For a selection of weeks, inspected ACF2 InvestOne audit log reports and evidence of review, and determined that the reports were reviewed by an ISSR and any exceptions were followed-up.
17. For a selection of months, inspected evidence of review and removal of inactive accounts and determined that inactive user accounts were reviewed and removed on a monthly basis.
18. Inspected documentation of the review and recertification of internal InvestOne and FedInvest user access and determined that internal InvestOne and FedInvest user access were reviewed and recertified.
19. For a selection of external FedInvest users, inspected documentation of the review and recertification of external FedInvest user access and determined that external FedInvest user access were reviewed and recertified.
20. For a selection of user account recertification reviews requesting removal of user access privileges, inspected InvestOne and FedInvest user lists, and determined that requested modifications were made.

No exceptions noted.

## **Control Objective 6 – Computer Operations**

Controls provide reasonable assurance that computer processes are scheduled appropriately and deviations are identified and resolved.

### **Description of Controls**

The InvestOne accounting system is an interactive mainframe system with master data files that are updated when entries are posted. End-of-day processes perform maintenance to the data tables and data backups. OIT support personnel complete the Production Control Daily Checklist to verify the successful completion of end-of-day processes. Data entry error checking and input screen designs help ensure that the data entered by the users is accurate and complete. The error checks include verification of entered data based on predetermined values and ranges. Errors detected by the system are rejected immediately and must be corrected before the transaction is permitted to update the master data tables.

Daily user operations procedures are posted for the InvestOne accounting system to provide operators with the information necessary to sequentially complete daily processing. Additionally, a monthly calendar is posted that highlights the daily requirements. The InvestOne accounting system configuration requires that daily reporting be performed in sequence before transaction processing can begin. OIT completes the Production Control Monthly Checklist to verify the successful completion of end-of-month processes.

The mainframe job scheduler software controls the scheduling of batch jobs for the InvestOne accounting system. The job scheduler allows all programs for batch processing, printing and data backup to be scheduled and performed automatically. Access to the job schedules is limited to OIT support personnel and privileges are commensurate with job responsibilities. The job scheduler sends messages confirming successful completion of each day's scheduled jobs to OIT and DSPS. Any abends are also communicated to the appropriate OIT and OPDA personnel as they happen through automated messages. Abends are resolved and jobs are restarted as necessary through the job scheduler.

### **Tests of Operating Effectiveness and Results of Testing**

1. For a selection of dates, inspected Production Control Daily Checklists and determined that the checklists were used during processing.
2. Inspected screenshots taken during the observation of the entry of transactions into the InvestOne accounting system and determined that error checking edits prevented users from entering values of the wrong data type or values not on lookup lists.
3. Inspected posted daily user operations for InvestOne and FedInvest, the FIB Daily Procedures, and the monthly requirements calendar and determined that these schedules and procedures were available.
4. For a selection of months, inspected the monthly requirements calendars and determined that these schedules were available.
5. For a selection of months, inspected Production Monthly Checklists and determined that the checklists were used during month-end processing.
6. Inspected the InvestOne accounting system job schedule and determined that a job production schedule for InvestOne were documented.

7. Inspected privileges of individuals granted access to make modifications to schedules and job control language for production jobs in the mainframe job scheduler and inquired of management regarding job responsibilities, and determined that access privileges were limited commensurate with job responsibilities.

No exceptions noted.

## **Control Objective 7 – Network Performance Monitoring**

Controls provide reasonable assurance that network performance monitoring techniques are implemented appropriately.

### **Description of Controls**

Users must be connected to the BPD Intranet to access the InvestOne accounting system. Additionally they must run terminal emulation software to connect to the mainframe environments. Network performance and availability is monitored by OIT at all times.<sup>12</sup>

### **Tests of Operating Effectiveness and Results of Testing**

1. Observed OIT Command Center staff and noted that monitoring tools were used to monitor the performance and availability of BPD networking equipment, such as switches and firewalls.
2. Observed OIT Command Center staff and noted that tools were used to monitor the performance and availability of the FedInvest website.
3. Inquired of management and were informed that the OIT Command Center was staffed 24 hours a day.

No exceptions noted.

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<sup>12</sup> Using the following utilities:

A combination of monitoring tools (b) (2) are used to monitor networking equipment such as switches and firewalls. These tools automatically report any network equipment or application outages to the Network Operations Center.

## **INVESTMENT/REDEMPTION PROCESSING CONTROLS**

### **Control Objective 8 – Item Processing Security**

Controls provide reasonable assurance that an authorized investment authority is established prior to processing investment requests.

#### **Description of Controls**

The Office of the Fiscal Assistant Secretary (OFAS) prepares the Department of the Treasury Operating Circular (Operating Circular) that communicates the policies and procedures regarding the government accounts on the books of the Treasury that the Secretary of the Treasury has been authorized or directed by law to invest. The Operating Circular describes the government investment account responsibilities that the Treasury has, and the fiscal responsibility the Fund Agencies have, for the use of the invested funds.

The Operating Circular also describes the process for how Treasury issues approval of the Fund's investment authority. FIB creates new investment accounts in the InvestOne accounting system that will be available in FedInvest after FIB receives confirmation that the BPD Chief Counsel's office and Assistant General Counsel for Banking and Finance completed the legal review of the Fund's investment authority or receives a completed Memorandum of Understanding (MOU) between Treasury's OFAS and the Fund Agency.

BPD Chief Counsel's office maintains records concerning all legal matters with regards to new and existing investment funds

#### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Provide applicable legislation to FIB, and any subsequent legislation revisions, that authorizes the Fund Agency to invest.
- Verify the authority to invest prior to submitting investment/redemption requests.
- Ensure that only authorized personnel sign requests or submit transactions in FedInvest.

#### **Tests of Operating Effectiveness and Results of Testing**

1. For a selection of new accounts, observed FIB process account requests and noted that FIB approved investment account and obtained authorized investment authority in accordance with the documented procedures.
2. For a selection of investment accounts created during the examination period, inspected documentation of approval from Treasury for their creation and determined that approval from Treasury was received prior to the creation of investment accounts.

No exceptions noted.

## **Control Objective 9 – Item Capture**

Controls provide reasonable assurance that investment and redemption requests are processed and recorded accurately and prepared in a timely manner.

### **Description of Controls**

Fund Agencies log on to FedInvest to enter their investment and redemption requests prior to the 3:00 pm EST deadline (11:00 am EST for Zero Coupon Bonds). Investment options include: (1) Market-based bills, notes, bonds, Treasury Inflation Protected Securities (TIPS); (2) One-day certificates; (3) Par-value securities for agencies with proper legislative authority; and (4) Zero Coupon Bonds. Procedures for processing investment and redemption requests by FIB accountants on behalf of the Fund Agency are documented for each type of transaction. For new market-based securities auctioned by Treasury, FIB accountants manually set up the new securities with a Committee on Uniform Securities Identification Procedures (CUSIP) number assigned by the Treasury into the InvestOne accounting system. Zero Coupon Bond securities are manually set up by FIB accountants with a CUSIP number assigned by the Treasury into the InvestOne accounting system only when an investment request is received by the agency. One-day and par-value securities are also set-up by an FIB accountant; however, the FIB accountant assigns a security number based on the security name and date of issue instead of a CUSIP number.

When necessary, a Fund Agency can send investment/redemption requests by fax, email, or hard-copy to FIB for processing on their behalf. To ensure that the Fund Agency's investment/redemption requests are suitable and have been entered correctly into the system, two FIB accountants review and sign each request, in addition to the accountant who entered the transaction into the FedInvest or InvestOne accounting system. The FIB accountants inspect the requests to ensure that they include: name of fund, account symbol, date of request, amount, type of security to invest/redeem, and authorized signature of the Fund Agency manager or authorized agent. If the requests do not contain the required information, the FIB accountants contact the Fund Agency to obtain the required information. Investment/redemption requests are processed as of the date on the requests.

Market-based securities – Office of Debt Management (ODM) provides FIB daily security price files for the market-based securities. These price files are calculated by ODM using Federal Reserve Bank (FRB) of New York Treasury Price Quote files. FIB accountants perform daily procedures to ensure the accuracy of the prices and for contingency planning in the event that ODM price files are unavailable to FIB. FIB accountants obtain the FRB of New York Treasury Price Quote files from a secure website using a digital certificate. The FIB accountant runs a desktop COBOL program that uses the FRB of New York prices to calculate and prepare market-based price files that can be loaded into the InvestOne accounting system. The desktop COBOL program also compares the calculated prices to the prices contained in the ODM files producing an exception report of any differences. In addition, an FIB accountant performs a yield curve comparison to check for significant variances from the composite Bloomberg generic pricing source obtained from the Bloomberg terminal. The FIB accountant notifies ODM of any price differences on the Exception Report and unusual variances identified from the yield curve comparison and ODM provides FIB with certification of any necessary price corrections via email. The FIB accountant loads the market-based prices into InvestOne accounting system and FedInvest by approximately 1:00 pm EST.

One-day securities – The FRB of New York provided FIB the daily rate for one-day certificates through November 2, 2008. Beginning November 3, 2008, ODM provides FIB the daily rate for the one-day certificates in an email of daily market bid quotations on most recently auctioned treasury bills. The one-day rate is the prior day's coupon equivalent of the shortest regularly issued treasury security, currently the 4 week bill. Each morning, a FIB accountant enters the overnight interest rate for the one-day security into the InvestOne accounting system and FedInvest and a second accountant compares the InvestOne accounting system security definition screens to the ODM email received to ensure the rate was recorded accurately.

Par-value securities – On the first business day of each month, a FIB accountant creates the par-value securities in the InvestOne accounting system and FedInvest using the rates provided by the Division of Accounting Operations (DAO) Principal and Interest Accounting Team (PIAT). PIAT prepares the rates for submission to FIB using rates provided by ODM and the average auction results of Treasury securities as specified in the pertinent legislation. Once the par-value security rates are compiled, they are submitted to the PIAT team lead for review. The team lead reviews the rates prior to submission to FIB by comparing the rates on the form for submission to the rates obtained from ODM and the security auction results tables. Once the securities have been created in the InvestOne accounting system using the rates obtained from PIAT, the FIB accountant compares the InvestOne accounting system security definition screens to the rates provided by PIAT to ensure that the rates are recorded accurately and documents the review on the assigned functions listing.

Zero Coupon Bond securities - ODM provides the Zero Coupon Bond pricing on an as needed basis. Currently, only two Fund Agencies invest in Zero Coupon Bonds. FIB receives the Fund Agency instructions for the purchase/redemption of Zero Coupon Bonds through a FedInvest email notification. A Fund Agency must enter Zero Coupon Bond purchase requests into FedInvest prior to 11:00 AM on the desired date. Once the purchase request has been entered, FedInvest sends an automated email to the FIB accountants and the FIB accountants forward the request to ODM for pricing. ODM prices the transaction at approximately noon and provides the pricing data to FIB. A FIB accountant enters the applicable pricing data and posts the requested transaction in InvestOne accounting system. Two other FIB accountants compare the pricing information from the InvestOne accounting system to the pricing data received from ODM to ensure the pricing is accurately recorded. A confirmation is available in FedInvest to the FedInvest user. The preparer and reviewing FIB accountants initial the transaction confirmation to document their review.

Fund Agencies that have not authorized FIB to process investment transactions on their behalf need to purchase new one-day securities each day using FedInvest (their investments are not automatically rolled over). If an Agency cannot access FedInvest, the agency must request the investment via email, fax, or hard copy. FIB accountants process these overnight transactions as instructed.

### **Investment Request Processing**

To establish access to FedInvest, the Fund Agency completes a FedInvest Logon-ID Request form and provides the form to a supervisor for approval. The supervisor reviews and approves the form and submits the form to FIB. FIB verifies that the information is complete then e-mails the IT Service Desk to request that the user be added to Contact Management. Once IT Service Desk notifies FIB that the user has been added to Contact Management, FIB provides the user form to the DSPS ISSRs for user set-up in FedInvest. OIT provides the new user with their user ID and temporary password and contacts the user to login to FedInvest with the temporary

password, answer security questions, and change the password. FIB then coordinates FedInvest training with the new user. When a FedInvest user is terminated, the Fund Agency uses the above stated form to revoke access and submits the approved form to FIB. FIB follows the same process stated above to revoke the user.

Fund Agency users access FedInvest using their user ID and password. The Fund Agency user selects the Account Fund Symbol (AFS), date, security type, and investment amount in FedInvest.

**Before Prices Loaded** – The FedInvest user may enter investment requests before prices are loaded in the system for up to 10 business days in the future except for Zero Coupon Bonds and Special Issue Certificates of Indebtedness. Upon submission of the request, the user receives a confirmation number, which is proof to the customer that their request was accepted. When prices are loaded by the FIB accountant into the InvestOne accounting system, the FIB accountant uses the FedInvest RPA module to load the prices into FedInvest, publish them on the website, and apply the prices to the pending investment transactions. Once the price has been applied to the transaction, it is automatically posted to the InvestOne accounting system and the confirmation number is replaced with a memo number that is also on the confirmation available to the user in FedInvest.

**After Prices Loaded** – The FedInvest user may enter investment requests after prices are loaded into the InvestOne accounting system, except for Zero Coupon Bonds. Since FedInvest interfaces with the InvestOne accounting system, the InvestOne accounting system automatically assigns a memo number and applies the price/rate. A confirmation of results is available in FedInvest to FedInvest users.

**Zero Coupon Bond securities** – The FedInvest user may enter investment requests by 11:00 am EST. FedInvest sends the request by email to the FIB accountants who forward the request to ODM for pricing. ODM prices the purchase of the Zero Coupon Bond at approximately 12:00 pm EST and forwards the results to FIB by email. The FIB accountant enters the pricing results into the InvestOne accounting system, posts the transaction, and forwards the memo number to the FedInvest user. A confirmation of results is available in FedInvest to the FedInvest user.

FIB may receive investment requests via fax, email, or hard-copy from Fund Agencies when necessary. A FIB accountant enters the request into FedInvest or InvestOne on behalf of the Fund Agency. Then two FIB accountants compare the transaction confirmation to the investment request to ensure the investment request is recorded accurately, posted to the correct day, and then initial the investment request to document their review. A confirmation of results is available in FedInvest to the FedInvest user the same day.

On the following business day, a FIB accountant compares the InvestOne Spectra report (Prior Day Review) to the investment requests submitted by the Fund Agency to ensure transactions were properly entered into the InvestOne accounting system. The FIB accountant documents this review by signing the investment request.

### **Redemption Request Processing**

To establish access to FedInvest, the Fund Agency completes a FedInvest Logon-ID Request form and provides the form to a supervisor for approval. The supervisor reviews and approves the form and submits the form to FIB. FIB verifies that the information is complete then e-mails the IT Service Desk to request that the user be added to Contact Management. Once IT Service

Desk notifies FIB that the user has been added to Contact Management, FIB provides a copy of the FedInvest Logon-ID Request form to the DSPS ISSRs for user set-up in FedInvest. OIT provides the new user with their user id and temporary password and contacts the user to login to FedInvest with the temporary password, answer security questions, and change the password. FIB then coordinates FedInvest training with the new user. When a FedInvest user is terminated, the Fund Agency uses the above stated form to revoke access and submits the approved form to FIB. FIB then goes through the same process stated above to revoke the user.

Fund Agency users access FedInvest using their user ID and password. The Fund Agency user selects the AFS, date, inventory method (First-In First-Out (FIFO) or Specific ID), security type, and redemption amount in FedInvest.

Before Prices Loaded – The FedInvest user may enter Market-based bill, note, and bond redemption requests using the FIFO inventory method before prices are loaded in the system for up to 10 business days in the future. Upon submission of the request, the user receives a confirmation number which is proof to the customer that their request was accepted. When prices are loaded by the FIB accountant into the InvestOne accounting system, the FIB accountant uses the FedInvest RPA module to load the prices into FedInvest, publish them on the website, and apply the prices to the pending redemption transactions. Once the price has been applied to the transaction, it is automatically posted to the InvestOne accounting system evidenced by the replacement of the confirmation number with a memo number that is also on the confirmation available to the user in FedInvest.

After Prices Loaded – The FedInvest user may enter Market-based bill, note, bond and TIPS redemption requests using the FIFO or Specific ID inventory methods after prices are loaded in the InvestOne accounting system and FedInvest. If Fund Agencies have tax lots (a group of the same securities purchased on different dates) and decide to apply the specific identification method rather than the FIFO method to redeem from specific tax lots, Fund Agencies need to select “Specific ID” inventory method to override the InvestOne accounting system default setting of the FIFO method, and enter the principal amount to redeem for each tax lot. Since FedInvest interfaces with the InvestOne accounting system, the InvestOne accounting system automatically assigns a memo number and applies the price/rate. A confirmation of results is available in FedInvest to FedInvest users.

Par-value securities - Special par-value securities have unique redemption rules that require the InvestOne accounting system to redeem them based on the order of earliest maturity date, lowest prevailing interest rate, and FIFO. The FedInvest user receives a confirmation with a confirmation number and a message that the redemption rules will be applied in accordance with Treasury Fiscal Policy. The transaction will be pending until after the close of business on the effective date. At close of business (after 3:00 pm EST) on the effective date of the redemption, the FIB accountant uses the FedInvest RPA module to run the Post Par Value Sell Transactions that will process, post, and assign memo numbers to the pending redemption requests in the InvestOne accounting system using the unique redemption rules. A confirmation of results is available in FedInvest to FedInvest users.

Zero Coupon Bond securities – The FedInvest user must enter redemption requests into FedInvest (by 11:00 am EST) and FedInvest sends an email to the FIB accountants who forward the request to ODM for pricing. ODM prices the redemption of the Zero Coupon Bond at approximately 12:00 pm EST and forwards the results to FIB via email. The FIB accountant enters the pricing results into the InvestOne accounting system, posts the transaction, and forwards the memo

number to the FedInvest user. A confirmation of results is available in FedInvest to the FedInvest users.

FIB may receive redemption requests via fax, email, or hard-copy from Fund Agencies when necessary. A FIB accountant enters the request into FedInvest or the InvestOne accounting system on behalf of the Fund Agency. Then two FIB accountants review and initial the redemption request. A confirmation of results is available in FedInvest to the FedInvest user the same day.

On the following business day, a FIB accountant compares the InvestOne Spectra report (Prior Day Review) to the redemption requests submitted by the Fund Agency to ensure transactions were properly entered into the InvestOne accounting system. The FIB accountant documents this review by signing the redemption request.

### **Investment Maturity Processing**

If Fund Agencies do not redeem securities prior to the maturity date, the InvestOne accounting system automatically matures the securities on the maturity date. A confirmation of results is available in FedInvest to the FedInvest user. Each business day, a FIB accountant runs a report for all one-day investments from the previous business day and the current day's maturities, reviews the report to make sure that all one-day investments matured and paid interest, and documents approval by initialing the daily checklist.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Ensure that the submission of investment/redemption requests in FedInvest is accurate and completed prior to 3:00 pm EST (11:00 am EST for Zero Coupon Bonds).
- Notify FIB if the investment/redemption requests have been processed incorrectly so that correcting transactions may be processed before 3:00 pm EST.
- Review investment/redemption/maturity/interest confirmations and Monthly Statements of Account to ensure that each request was processed accurately, timely, and in accordance with their instructions.
- Ensure that access to FedInvest is restricted to properly authorized individuals.

### **Tests of Operating Effectiveness and Results of Testing**

1. Observed the FIB accountant upload the price file for market-based securities into the InvestOne accounting system and determined that the FIB Accountant followed the established policies and procedures.
2. For a selection of business days, inspected documentation of the daily procedures performed by the FIB accountants regarding the market-based securities pricing and determined that the FIB accountants followed the established policies and procedures, as evidenced by the FIB accountants' sign off on the daily procedures checklist.

3. For a selection of business days, inspected the daily procedures checklist and determined that the FIB accountants performed a yield curve comparison to identify significant variances between the ODM price file for market-based securities and the composite Bloomberg generic pricing source obtained from the Bloomberg terminal.
4. For a selection of business days, inspected the daily procedures checklist and determined that the FIB accountant ran the desktop COBOL program that compares the FIB calculated prices for market-based securities to the prices contained in the ODM files producing an exception report of any differences.
5. For a selection of business days, inspected the daily procedures checklist and InvestOne security definition screens and determined that a second FIB accountant reviewed the loaded overnight interest rate for one-day securities into the InvestOne accounting system and FedInvest by comparing the InvestOne accounting system security definition screens to the ODM email to ensure the rate was recorded accurately.
6. For a selection of months, inspected documentation of the PIAT provided pricing for par-value securities and determined that the PIAT team leader reviewed the rates provided to FIB, the FIB accountant accurately loaded the rates into the InvestOne accounting system, and a second FIB accountant compared the rates from the InvestOne accounting system security definition screens to the rates provided by PIAT to ensure the rate was accurately recorded.
7. For a selection of investments and redemptions of Zero Coupon Bonds, inspected the transaction confirmation from FedInvest and determined that: the pricing information provided by ODM was accurately recorded into the InvestOne accounting system, two other FIB accountants reviewed the pricing information to ensure accuracy, and the transaction was recorded accurately and in a timely manner.
8. Inspected investment/redemption processing request procedures and observed the FIB accountant process investment/redemption requests and determined that FIB processed investment/redemption requests in accordance with the established procedures.
9. For a selection of investment/redemption requests, inspected signed Request for Investment/Redemption forms or emailed authorization and determined that: FIB was authorized by the Fund Agency to process each investment/redemption request prior to entry into the InvestOne accounting system, the documented procedures were followed, the investment/redemption request was initialed by the accountant recording the entry, the entry was properly reviewed and initialed by two other FIB accountants after entry into the InvestOne accounting system, a comparison of each request form to an InvestOne Spectra report was documented by an FIB accountant, the request was recorded accurately and in a timely manner, and documentation is maintained and available.
10. For a redemption request entered through FedInvest, inspected the confirmation and determined that the redemption was recorded accurately and processed as requested in a timely manner.
11. For an investment request entered through FedInvest, observed the InvestOne accounting system automatically assign a memo number, apply the price/rate, and generate and post an on-line confirmation, and determined that the request was recorded accurately and processed in a timely manner.

12. Observed the FIB accountant use the FedInvest RPA module to run the Post Par Value Sell Transactions and process, post, and assign memo numbers to the pending redemption requests in the InvestOne accounting system using the redemption rules for par-value securities and determined that the FIB accountant followed the established policies and procedures. Further, reperformed the system's selection of the security redeemed for one Fund Agency redemption request and determined that the system properly applied the redemption rules for par-value securities.
13. For a selection of business days, inspected documentation of the daily procedures performed by the FIB accountants regarding par-value security redemptions and determined that the FIB accountants followed the established policies and procedures, as evidenced by the FIB accountants' sign off on the daily procedures checklist.
14. For a selection of business days, inspected documentation of the daily procedures performed by the FIB accountants and determined that the FIB accountant ran a report for all one-day investments from the previous business day and the current day's maturities, reviewed the report to ensure that all one-day investments matured and paid interest, and documented approval by initialing the daily checklist.
15. For a matured investment, inspected the corresponding confirmation and determined that the InvestOne accounting system automatically matured the security on the maturity date, accurately recorded the transaction in a timely manner, and posted an on-line confirmation on FedInvest.

No exceptions noted.

## **Control Objective 10 – Confirmations**

Controls provide reasonable assurance that confirmations are processed in a timely and accurate manner.

### **Description of Controls**

The InvestOne accounting system assigns a memo number for transactions entered in FedInvest that are posted immediately into the InvestOne accounting system.

A confirmation number is created for each transaction entered into FedInvest that is not processed immediately upon entry (e.g., market based transactions before prices are loaded, Zero Coupon Bonds, and special issue par-value redemptions) to notify the user that the transaction is in the processing queue. Once transactions are processed into the InvestOne accounting system, the InvestOne accounting system assigns an individual memo number that replaces the confirmation number. Memo numbers are provided to Fund Agency FedInvest users through the interface between FedInvest and the InvestOne accounting system.

For each entry into the InvestOne accounting system, the system automatically generates and posts an on-line confirmation of the transaction available in FedInvest for Fund Agency reconciliation. Fund agencies access FedInvest using their user ID and password to obtain confirmations.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Track investment/redemption confirmations to ensure that the Fund Agency FedInvest user correctly processes all requests.
- Review and reconcile all transaction confirmations to determine that they are accurate and complete, and report discrepancies to FIB so correcting transactions may be processed before 3:00 pm EST.
- Ensure that access to FedInvest is restricted to properly authorized individuals.
- Review investment/redemption/maturity/interest confirmations and Monthly Statements of Account to ensure that each request was processed accurately, timely, and in accordance with their instructions.

### **Tests of Operating Effectiveness and Results of Testing**

1. For an investment request, a redemption request, and a maturity of securities, inspected FedInvest and determined that FedInvest automatically generated and posted an on-line confirmation that accurately reflected the transaction and indicated that the transaction was processed accurately and timely.
2. For an investment request, a redemption request, and a maturity of securities, observed the processing of transactions in the InvestOne accounting system and noted that the InvestOne accounting system automatically assigned a memo number and the request was recorded accurately and in a timely manner.

3. For an investment request entered into FedInvest but not immediately processed into the InvestOne accounting system (due to the fact that pricing information was not yet loaded), observed FedInvest and noted that a confirmation number was automatically assigned and an on-line confirmation indicated that the transaction was in the processing queue. Observed FedInvest after the pricing information was loaded and noted that the confirmation number assigned upon data entry was replaced with a memo number and that the request was recorded accurately and in a timely manner.

No exceptions noted.

## **Control Objective 11 – Fund Balance Adjustment**

Controls provide reasonable assurance that Fund Agency account balance adjustments, due to errors in processing or Fund Agency errors, are processed completely and accurately.

### **Description of Controls**

Fund Agencies should detect errors by reviewing confirmations. Fund Agencies notify FIB of the errors and send adjustment information. FIB maintains a documented procedure detailing the steps that need to be performed when making a correction or adjustment. The Correction/Adjustment Check List documents the tasks that generally need to be completed when making a correction or adjustment. When necessary, a FIB accountant enters an adjustment or corrects the original transaction in the InvestOne accounting system. The InvestOne accounting system processes the adjustment and a confirmation of the adjustment or corrected transaction is available in FedInvest to the FedInvest user.

The FIB accountant prepares a correction package and completes the Correction/Adjustment Check List when adjustments are necessary. Two other FIB accountants, (the team leader and a reviewing FIB accountant), review and approve the correction package and any transactions posted to InvestOne, PARS, and/or IPAC, as applicable. The review and approval process is completed by determining the necessary steps on the Correction/Adjustment Check List have been performed.

A FIB accountant runs a report from the FIB Menu (a COBOL collection of desktop programs) to create Monthly Statements of Account, which documents all transactions processed for a particular month, including any necessary adjustments. The Monthly Statement of Account is made available in FedInvest and on the BPD's TreasuryDirect website for review by the Fund Agencies.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Review investment/redemption/maturity/interest confirmations and Monthly Statements of Account to ensure that each request was processed accurately, timely, and in accordance with their instructions.
- Review adjustments and make prompt and appropriate journal entries to the accounting records, to adjust the investment and interest account balances.
- Review Monthly Statements of Account to verify that adjustments were processed completely and accurately.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected written procedures and observed the processing of error corrections and determined that the corrections were performed in accordance with the established procedures.
2. For a selection of account balance adjustments, inspected the Fund Agency's adjustment request and the Correction/Adjustment Check List and determined that two FIB accountants

documented their review of each adjustment request and that the request was processed completely and accurately.

3. Observed the FIB accountant prepare and post the Monthly Statement of Account for one month and determined that the FIB accountant followed the established policies and procedures.
4. For a selection of Monthly Statements of Accounts, inspected the Monthly Statements of Account on FedInvest and determined that they were posted by the first working day after the end of the month and were made available for review to the Fund Agencies.
5. For a selected adjustment, inspected the respective Monthly Statement of Account and determined that the Monthly Statement of Account indicated that the adjustment was processed accurately.

No exceptions noted.

## **Control Objective 12 – Recordkeeping**

Controls provide reasonable assurance that support related to the investment accounts is documented and readily available.

### **Description of Controls**

Transaction confirmations and the Monthly Statements of Account containing InvestOne accounting system data are available in FedInvest to the FedInvest users. The Monthly Statement of Account is also available on the TreasuryDirect website. FIB maintains file copies of the investment/redemption requests that were processed by FIB on behalf of the Fund Agency.

On a daily basis, FIB receives market-based security price files from ODM and FRB of New York, Zero Coupon Bond pricing as needed from ODM, and a daily email for the one-day certificate rate from the FRB of New York through November 2, 2008 and from ODM beginning November 3, 2008. On a monthly basis, FIB receives via email the par-value security rates from PIAT. These quotations document the security prices/rates and are retained for future reference for a period of seven years in accordance with the BPD document retention policies. FIB files and retains Daily Principal Totals Reports, which detail all daily principal transactions and are reconciled to the Balances-Summary (DIST) report daily.

FIB maintains copies of the Notification of Principal & Interest (P&I) Credit, which report principal and interest activity on certain Marketable or Agency Security investments held at FRB of New York. Each month, FIB prepares the Standard Form 1132, *Investment Funds Summary Holding Report* (SF1132), Standard Form 1133-1, *Marketable Securities Held by GAS Agencies* (SF1133-1), and Standard Form 1134-1 *Agency Securities Held by GAS Agencies* (SF1134-1) reports, which document each Fund Agency's account balance including securities held in safekeeping at FRB New York. These reports are published on the TreasuryDirect website.

### **Tests of Operating Effectiveness and Results of Testing**

1. For a selection of Monthly Statements of Accounts, inspected the Monthly Statements of Accounts and determined that the reports were maintained and readily available.
2. For a selection of investment/redemption requests, inspected the confirmations and determined that confirmations were maintained and readily available.
3. For a selection of investment/redemption requests, inspected the request for investment/redemption forms and determined that documentation was maintained and available.
4. For a selection of dates, inspected the Daily Principal Totals Reports and determined that the FIB accountants reconciled the reports to the Balances-Summary (DIST) report, the reconciliation was mathematically correct and documented, and the documentation was maintained and available.
5. For a selection of transactions or dates, inspected pricing records and determined that pricing documentation was maintained and available.
6. For a selection of months, inspected the Notification of P&I Credit and determined that the documentation was maintained and available.

7. For a selection of months, inspected the SF1132, SF1133-1, and SF1134-1 reports and determined that the reports were maintained and readily available.

No exceptions noted.

## **Control Objective 13 – Segregation of Duties**

Controls provide reasonable assurance that the duties of authorizing, processing information, and verifying documents are appropriately segregated.

### **Description of Controls**

FIB has established policies and procedures documenting that the following responsibilities are segregated for Fund Agencies using FedInvest:

- Fund Agencies are responsible for requesting access to FedInvest.
- External FedInvest users must have their supervisor's approval along with OPDA ISSR approval documented on an Access Request/Revoke form before access is granted to FedInvest.
- Access permissions are assigned to FedInvest and the InvestOne accounting system users commensurate with their job responsibilities.
- Fund Agencies access FedInvest and submit investment purchase and redemption requests.
- FedInvest interfaces with the InvestOne accounting system which processes and posts the investment and redemption requests and provides the data for the confirmations that are available in FedInvest to the FedInvest users.

FIB has established policies and procedures documenting that the following responsibilities are segregated when FIB processes transaction requests on behalf of the Fund Agencies:

- Fund Agencies prepare and submit investment/redemption requests to FIB via fax, email, or hard copy form.
- FIB personnel enter the investment purchase or redemption request into FedInvest or the InvestOne accounting system.
- The InvestOne accounting system processes the investment and redemption requests and provides the data for the confirmations that are available in FedInvest to the FedInvest users.
- To verify that transactions have been processed accurately, two FIB accountants other than the one who entered the transaction will review and compare a copy of the investment/redemption request from the Agency to the data entered into the InvestOne accounting system. Both the accountant entering the transaction and those reviewing it initial the file copies to document that the procedure has been performed.
- On the following business day, an FIB accountant compares the InvestOne Spectra report (Prior Day Review Report) to the investment/redemption request submitted by the Fund Agency to ensure transactions were properly entered into the InvestOne accounting system. The FIB accountant documents completion of this review by signing the investment/redemption request.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Ensure that access to FedInvest is restricted to properly authorized individuals.

## **Tests of Operating Effectiveness and Results of Testing**

1. Inspected investment/redemption processing request procedures, observed the FIB accountant process investment/redemption requests, and determined that FIB processed the requests in accordance with the established procedures.
2. For a selection of investment/redemption requests, inspected signed Request for Investment/Redemption forms or emailed authorization and determined that: FIB was authorized by the Fund Agency to process each investment/redemption request prior to entry into the InvestOne accounting system, the documented procedures were followed, the investment/redemption request was initialed by the accountant recording the entry, the entry was properly reviewed and initialed by two other FIB accountants after entry into the InvestOne accounting system, a comparison of each request form to an InvestOne Spectra report was documented by an FIB accountant, the request was recorded accurately and in a timely manner, and documentation is maintained and available.

No exceptions noted.

## **Control Objective 14 – Interest Calculation and Payments**

Controls provide reasonable assurance that interest is calculated accurately and interest reinvestments are completed accurately.

### **Description of Controls**

#### Interest

FIB has documented the methods for calculating interest for Government Account Series securities in written desktop procedures. One-day securities pay interest daily, par-value securities pay interest semi-annually on June 30 and December 31, and market-based notes, bonds and TIPS pay interest semi-annually on various dates. The market-based bills and Zero Coupon Bonds do not pay periodic interest and therefore interest income is equal to the discount earned. The InvestOne accounting system calculates the amount of interest to be paid when holdings are redeemed or interest payments are due. The InvestOne accounting system calculates interest based on the investment terms in the system in accordance with the requirements of 31 CFR Chapter II, Part 306, Subpart E, and Part 356, Appendix B, with the exception of one-day securities. The InvestOne accounting system calculates interest for one-day securities using the rate that FIB receives from FRB New York/ODM.

The InvestOne accounting system reports the results of the calculations on confirmations available in FedInvest for Fund Agency reconciliation and re-computation. The confirmation generation process is summarized as follows.

Fund Agencies access FedInvest using their user ID and password. Since FedInvest interfaces with the InvestOne accounting system, the InvestOne accounting system data is displayed on the confirmations that are immediately available in FedInvest to the FedInvest user.

The InvestOne accounting system also calculates certain accrued interest amounts and Inflation Compensation Earned (ICE) on the TIPS. The InvestOne accounting system calculates ICE in accordance with the requirements of 31 CFR Chapter II, Part 356, Appendix B.

FIB accountants can verify the accuracy of the InvestOne accounting system interest calculations by manually recalculating interest for redemptions, maturities and semi-annual payment dates.

A COBOL program uses extracted data from the InvestOne accounting system to generate Monthly Statements of Account (a cash basis statement that reflects the Agency's investment SF 224 reporting, and shows interest income paid on each security). To create the Monthly Statement of Account, a FIB accountant runs the COBOL program for both tax lot and summary levels. This creates two text files for each Fund. The FIB accountant uses version control software to publish the Monthly Statement of Account by Tax Lot in FedInvest for easy reference. The FIB accountant sends the summary level Monthly Statement of Account via email to PD Web Content Management for review and publishing in FedInvest and on the TreasuryDirect website.

FIB makes the Monthly Statements of Account and investment/redemption confirmations, available to the Fund Agencies for reconciliation with their accounting records. In addition, previous months' statements are available for reference purposes. If the Fund Agency identifies any errors, the Fund Agency should inform FIB so the necessary adjustments may be made.

### Amortization of Premiums and Discounts

The InvestOne accounting system automatically calculates amortization of discount/premium based on the investment terms in the system. FIB has documented the methods for calculating the discount/premium amortization in written desktop procedures. The system calculates amortization for market-based bills (i.e., short-term securities) using the straight-line method and for market-based notes/bonds/TIPS/Zero Coupon Bonds (i.e., long-term securities), using the level yield method, which approximates the interest method. A COBOL program is used to create monthly Accrual Confirmation and Accrual Activity Reports for each account, which contain the monthly amortization figures that are published in FedInvest for Fund Agency reconciliation and re-computation. To create the Accrual Confirmation and Accrual Activity Reports, a FIB accountant selects and runs the “accrual report” option from the FIB report menu. This generates two text files that include the Accrual Confirmation and Accrual Activity Reports for each fund. The FIB accountant uses version control software to publish the Accrual Confirmation and Accrual Activity Reports in FedInvest for easy reference. In addition, previous months’ statements are available for reference purposes. If the Fund Agency identifies any errors, the Fund Agency should inform FIB so the necessary adjustments may be made.

### Accrued Interest

The InvestOne accounting system automatically calculates accrued interest based on the investment terms in the system. FIB has documented the methods for calculating the accrued interest in written desktop procedures. The FIB Menu accrual report program reports the results of interest accruals in the monthly Accrual Confirmation and Accrual Activity Report and publishes the report in FedInvest for Fund Agency reconciliation and re-computation. To create the Accrual Confirmation and Accrual Activity Reports, a FIB accountant selects and runs the “accrual report” option from the FIB report menu that generates two text files that include the Accrual Confirmation and Accrual Activity Reports for each fund. The FIB accountant uses version control software to publish the Accrual Confirmation and Accrual Activity Reports in FedInvest for easy reference. In addition, previous months’ statements are available for reference purposes. If the Fund Agency identifies any errors, the Fund Agency should inform FIB so the necessary adjustments may be made.

### Interest Reinvestments

FIB prepares an Investment Rollover Report for the Office of Fiscal Projections that includes principal balances from the InvestOne accounting system and interest accruals that are associated with those balances as of the date of the report. For the December 31 interest payments on par-value securities, the money is reinvested into a certificate of indebtedness maturing the following June 30. For June 30 maturities and interest payments, FIB receives written documentation from each agency that holds par-value securities that states how they want their interest and maturities reinvested. June 30 is the only date in which agencies can invest in longer term par-value securities (par-value bonds). OPDA reviews and approves the Investment Rollover Report for accuracy and sends the report to Treasury headquarters. The Fiscal Assistant Secretary of Treasury approves and returns the Investment Rollover Report for FIB to process on June 30. The interest-reinvestment process for the non-par-value securities is the same as and subject to the regular investment process discussed in Control Objective 9.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Ensure that the requested investment returns the appropriate amount of interest to meet their investment income goals.
- Reconcile interest payments received as presented in the confirmations and Monthly Statements of Account and recalculate interest for accuracy.
- Approve reinvestments of interest after review for accuracy, completeness, and compliance with instructions.
- Recalculate interest accrual and amortization of premium and/or discount and compare the results to the BPD provided monthly Accrual Confirmation and Accrual Activity Reports.
- Report any interest accrual discrepancies noted on the monthly Accrual Confirmation and Accrual Activity Reports to BPD for resolution.
- Report any premium and/or discount amortization discrepancy noted on the monthly Accrual Confirmation and Accrual Activity Reports to BPD for resolution.

### **Tests of Operating Effectiveness and Results of Testing**

1. Inspected interest calculation procedures and determined that interest calculation transactions were processed in accordance with procedures.
2. Inspected interest calculation procedures and determined that they were consistent with the requirements of 31 CFR, Chapter II, Part 306, Subpart E and Part 356, Appendix B.
3. For a selection of interest transactions including each type of GAS security other than one-day securities, recalculated the interest amounts, amortization, and ICE and determined that the system calculations were in accordance with the CFR requirements and mathematically accurate.
4. For a selection of one-day securities, recalculated the interest income and determined that the system calculations were mathematically accurate and complied with the desktop procedures.
5. For a selection of transactions processed in the InvestOne accounting system, inspected confirmations and determined that subsequent to transactions posting in the InvestOne accounting system, the system automatically generates and posts an on-line confirmation of the transaction available in FedInvest to Fund Agencies.
6. Inspected a confirmation and determined that the confirmation contained appropriate and necessary information to allow for Fund Agency reconciliation and re-computation of transactions.
7. For a selection of Accrual Confirmation Reports, inspected FedInvest and determined that the Accrual Confirmation Reports were available in FedInvest to Fund Agencies.
8. Observed the FIB accountant generate an Accrual Confirmation Report and publish it in FedInvest using version control software. We attempted to modify the published Accrual Confirmation Report and determined that the modification of the report was prevented.

9. For a selection of transactions from the Accrual Confirmation Reports, recalculated the amortization of premium and discount and determined that the level yield method utilized by FIB approximated the interest method.
10. For a selection of Accrual Confirmation Reports, inspected the reports and determined that they contained the necessary information for Fund Agencies to reconcile and re-compute accruals and amortization and that the information documented was accurate.
11. For a selection of Investment Rollover Reports, inspected the reports and determined that FIB management documented its review and approval of each report prior to distributing it to the respective Fund Agencies and that FIB maintained the written interest and maturities reinvestment requests from the Fund Agencies.
12. Inspected the June 2009 Investment Rollover Report and determined that FIB management documented its review and approval of each rollover plan in the Investment Rollover Report and the Assistant Secretary of the Treasury approved the report prior to processing.
13. For a selection of par-value securities interest reinvestments, inspected the supporting instructions and determined that reinvestments were completed in accordance with Fund Agency instructions.

No exceptions noted.

## **Control Objective 15 – Statement Rendering**

Controls provide reasonable assurance that monthly reports are processed in a timely and accurate manner.

### **Description of Controls**

#### Monthly Statements of Account

A FIB Menu program extracts data from the InvestOne accounting system to produce the Monthly Statement of Account that details cash basis reporting of a Fund Agency's beginning balance, investment/redemption activity, unrealized discount, premium/discount recognized, interest earnings, adjustments processed and ending balance for the month. These reports are available in FedInvest and on the TreasuryDirect website by the 1st working day after the end of the month to be accessed by Fund Agencies for transaction reconciliation, investment monitoring, and investment strategy initiatives. To create the report, the FIB accountant runs a COBOL program that uses InvestOne accounting system data to create text files of the Monthly Statements of Account at both the summary level and tax lot level for each fund. The FIB accountant uses version control software to publish the Monthly Statements of Account at the tax lot level in FedInvest for easy reference. The version control software protects the posted documents so that they are read-only access to the external user and cannot be modified once published. In addition, previous months statements are available for reference purposes. If the Fund Agency identifies any errors, the Fund Agency should inform FIB so the necessary adjustments may be made. FIB's policy requires that FIB accountants complete and forward Monthly Statements of Account at the summary level to PD Web Content Management for review and publishing in FedInvest and on the TreasuryDirect website by the 1st working day after the end of the month.

#### Partial SF-224 Report

Federal Program Agencies are required to report the monthly investment activity to Treasury, Financial Management Service (FMS). This reporting is generally accomplished using the monthly SF-224, *Statement of Transactions*. However, FIB is able to report daily investment activity to FMS on behalf of the Fund Agencies by submitting FIB's daily IPAC file to FMS. FIB creates the FIB daily IPAC file, which is a configured system report, using a mainframe job. The file includes the Fund Agency's Treasury Account Symbol (TAS) and the Business Event Type Code (BETC) allowing the activity to be classified in the FMS Governmentwide Account Statement, eliminating the need for the monthly SF-224 report for investment transactions. According to the Treasury Financial Manual Bulletin No. 2007-03, FIB should be reporting the investment activity for all investment customers. FIB is currently transitioning all Fund Agencies to this process.

Additionally, FIB prepares a partial SF-224 on a monthly basis to report non-IPAC activity, which consists of reclassification entries. FIB creates the partial SF-224 report and file using a mainframe program and the InvestOne accounting system. FIB uploads the partial SF-224 file to FMS using the GWA system. FIB instructs agencies to obtain access to the FMS GWA Account Statement application in order to verify the activity submitted by FIB.

### **Fund Agency Control Considerations**

Fund Agencies should establish controls to:

- Review FIB provided Monthly Statements of Account to ensure that transactions are recorded accurately and timely, and report discrepancies to FIB so correction processes may occur.
- Reconcile investment activity from the FMS application Governmentwide Account Statements to the FIB provided Monthly Statements of Account to verify that investment activity is being properly reported by FIB on the Fund Agencies' behalf.

### **Tests of Operating Effectiveness and Results of Testing**

1. For a selection of Monthly Statements of Accounts, inspected the Monthly Statements of Account on FedInvest and determined that they were posted by the first working day after the end of the month.
2. For a selection of transactions, inspected the respective Monthly Statements of Account and determined that the transactions were accurately reflected in the Monthly Statements of Account.
3. Observed the FIB accountant generate a Monthly Statement of Account and publish it in FedInvest using version control software. For a selection of posted Monthly Statements of Account, attempted to modify the published Monthly Statement of Account and determined that the modification of the statement was prevented.
4. Observed the FIB accountant process the daily IPAC file and determined that the file contained the Fund Agency's Treasury Account Symbol and the Business Event Type Code.
5. For a selection of business days, inspected documentation of the daily procedures performed by the FIB accountants regarding the daily IPAC file submission and determined that the accountants followed the established policies and procedures, as evidenced by the FIB accountant's sign off on the daily procedures checklist.
6. For a selection of monthly partial SF 224 submissions, inspected the partial SF 224 submissions and determined that the investment activity was reviewed by a FIB accountant other than the preparer.

No exceptions noted.

**IV. OTHER INFORMATION PROVIDED BY THE  
BUREAU OF THE PUBLIC DEBT**

## CONTINGENCY PLANNING

### System Back Up

The InvestOne accounting system has a contingency plan managed by the Division of Systems and Program Support (DSPS). There is a formal Division of Federal Investments (DFI) Continuity of Operations Plan (COOP), which is part of a larger COOP for the Office of Public Debt Accounting (OPDA) and the Bureau of the Public Debt (BPD). The Federal Investments Branch (FIB) performs tests on all essential daily InvestOne functions<sup>13</sup>

The Office of Information Technology (OIT) performs backups of the InvestOne accounting system on a regular schedule. OIT retains the backup tapes according to a pre-set schedule<sup>14</sup> at an offsite facility. OIT stores one copy in the production tape library, and the other copy is shipped to an offsite facility. Long-term storage of tapes is provided through a contract with an offsite storage facility. If a backup tape needs to be restored, the request will be made from the DSPS. OIT will then load the backup tape.

### Continuity of Operations

A fire alarm and sprinkler system that is managed, maintained, and tested by the building management protects the data center<sup>15</sup>. Sprinkler heads are located in the ceiling of each room of the buildings. This is a wet pipe (always charged with water) system with individual heads that discharge water.<sup>16</sup>

The DFI Business Continuity Plan calls for resumption of operations and critical applications of essential functions within a pre-set time frame<sup>17</sup>. The InvestOne accounting system has been classified as a critical application.

As part of the DFI COOP Plan, should the facility supporting InvestOne and FedInvest become unavailable, designated FIB personnel will relocate<sup>18</sup> to reestablish their daily operations. When applicable, BPD will revert to manual procedures until the mainframe and InvestOne accounting system are fully recovered.

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<sup>13</sup> FIB performs (b) (2) tests on all (b) (2) InvestOne functions at OPDA's contingency site with the support of (b) (2) FIB employees. The focus of these tests is to provide assurances that connectivity can be made and these functions will continue with minimum interruption during any emergency that may occur with or without warning.

<sup>14</sup> OIT uses (b) (2) to perform (b) (2) backups of the system (b) (2) (b) (2) (b) (2). OIT retains the first backup (b) (2).

Alarms are active 24 hours a day, 7 days a week, and are tied in to the local fire department (b) (2) for spontaneous notification

<sup>16</sup> In the event the (b) (2) building, where the InvestOne accounting system is run, becomes inoperable, mainframe operations would be relocated to the BPD contingency facility in accordance with the OIT data center recovery plan. This facility employs a (b) (2) strategy for recovery of mainframe operations. OIT has contracted (b) (2) to provide mainframe equipment for this site.

<sup>17</sup> (b) (2) time frame.

<sup>18</sup> (b) (2) the (b) (2) facility

(b) (2)

**V. INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH LAWS AND REGULATIONS**



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Public Debt and the  
Assistant Commissioner, Office of Public Debt Accounting

We have examined the accompanying description of the general computer and investment/redemption processing controls related to the Federal Investments Branch (FIB) of the Bureau of the Public Debt (BPD) as of July 31, 2009, and have issued our report thereon dated September 18, 2009. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to a Fund Agencies' internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and Fund Agencies and sub-service organizations applied the controls contemplated in the design of BPD's controls; and (3) such controls had been placed in operation as of July 31, 2009. The control objectives were specified by the management of BPD. Our examination included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Compliance with laws and regulations applicable to FIB of BPD is the responsibility of BPD management. As part of obtaining reasonable assurance about whether control structure policies and procedures tested were operating with sufficient effectiveness to achieve the related control objectives during the period from August 1, 2008 to July 31, 2009, we performed tests of BPD's compliance with certain provisions of applicable laws and regulations directly and materially affecting the general computer and investment/redemption processing controls. We limited our tests of compliance to these provisions and we did not test compliance with all applicable laws and regulations. The objective of our examination was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of BPD, its Fund Agencies, the independent auditors of its Fund Agencies, the U.S. Department of the Treasury Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

September 18, 2009